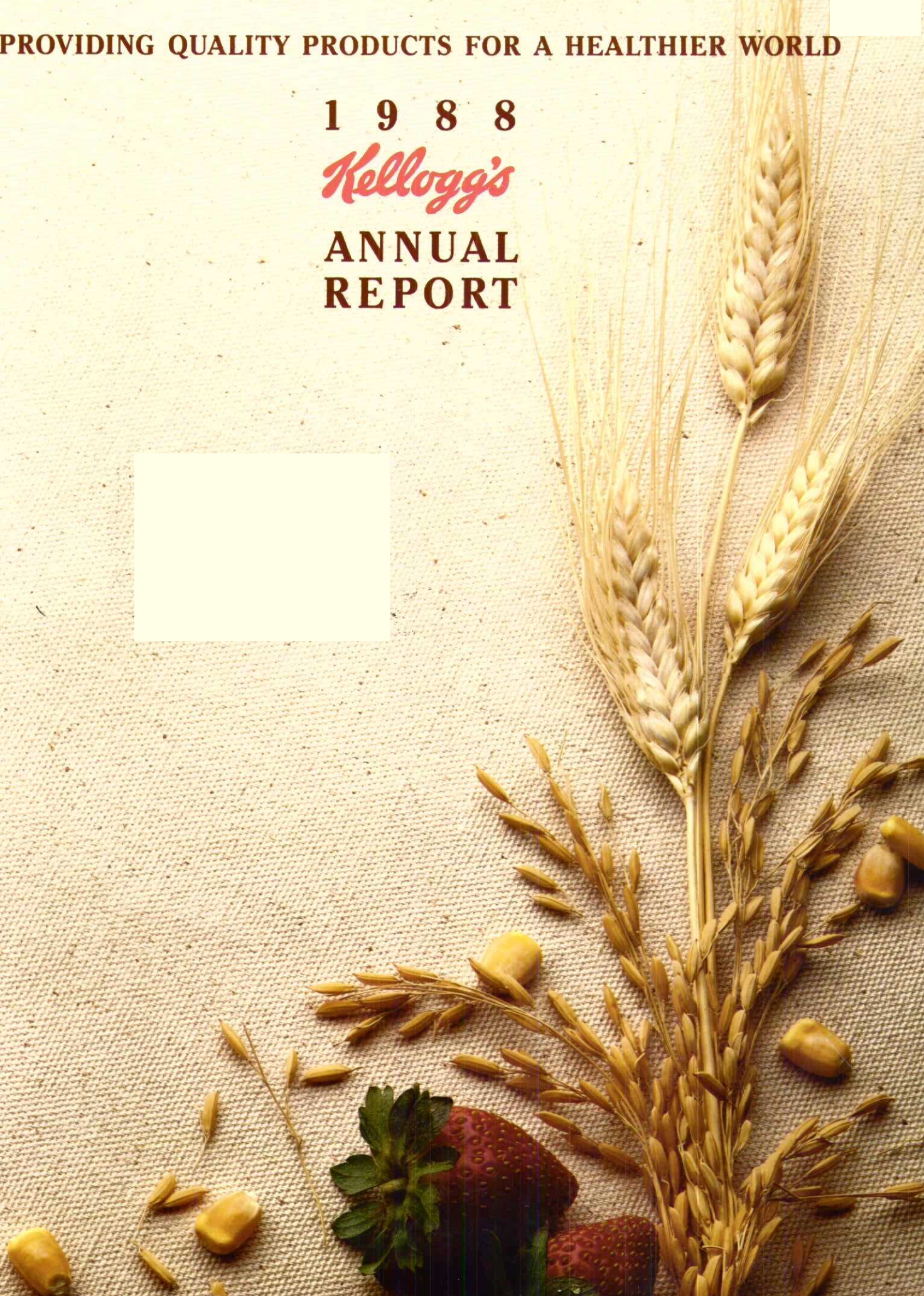


PROVIDING QUALITY PRODUCTS FOR A HEALTHIER WORLD

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Kellogg's

ANNUAL
REPORT



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Financial Highlights

(dollar amounts in millions, except share data)	1988	Change	1987	Change	1986	Change
Net sales	\$4,348.8	+ 15%	\$3,793.0	+ 14%	\$3,340.7	+ 14%
Net earnings	480.4	+ 21%	395.9	+ 24%	318.9	+ 13%
Earnings per share	3.90	+ 22%	3.20	+ 24%	2.58	+ 13%
Dividends per share	1.52	+ 18%	1.29	+ 26%	1.02	+ 13%
Cash provided by operations	492.3	- 6%	523.5	- 4%	542.7	+ 21%
Capital expenditures	538.1	+ 12%	478.4	+ 45%	329.2	+ 34%
Return on average equity	36%		38%		40%	
Debt to total capital	32%		27%		31%	
Average shares outstanding (000)	123,188		123,668		123,481	



Kellogg Company Annual Report 1988

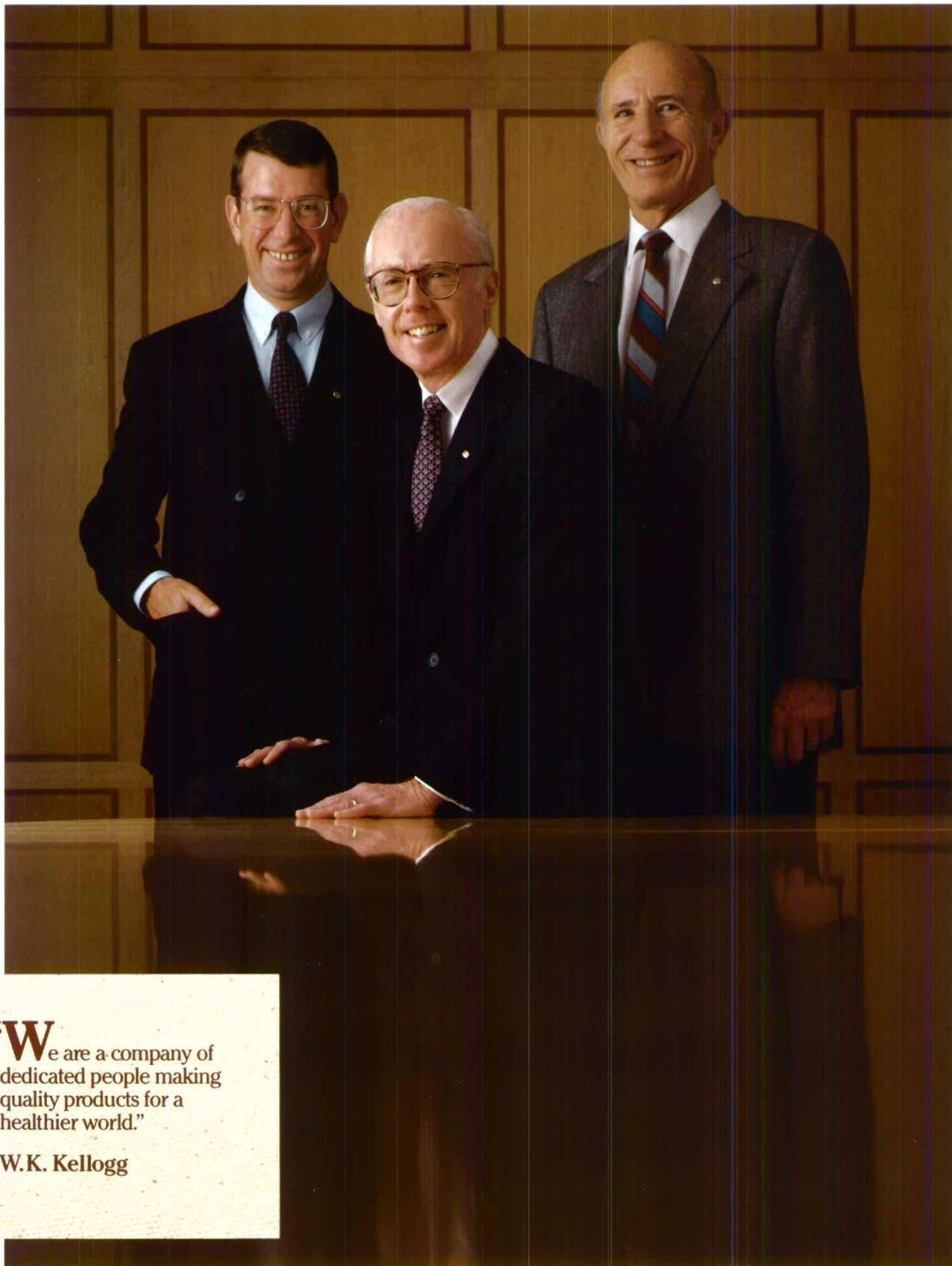
Kellogg Company is the world's leading producer of ready-to-eat cereal products. The Company, headquartered in Battle Creek, Michigan, also manufactures and markets a wide variety of other convenience foods, including frozen pies and waffles, toaster pastries, soups, soup bases, yogurt, and snack items.

Kellogg Company brands include *Kellogg's*,[®] *Mrs. Smith's*,[®] *Eggo*,[®] *LeGout*,[®] *Whitney's*,[®] and *Shirriff*.[®]

Kellogg products are manufactured in 17 countries and distributed in 130 countries. More than 17,000 people around the world work for Kellogg Company in manufacturing, distribution, and management.

Founded in 1906, Kellogg Company quickly established a reputation for excellence. More than eight decades later, that reputation continues. The Company has achieved 44 consecutive years of increased sales, 37 years of increased earnings, and 32 years of increased dividends.

Kellogg is committed to worldwide growth through the efforts of dedicated people using modern, efficient technology to develop, produce, and distribute high-quality products at good value to consumers.



“We are a company of dedicated people making quality products for a healthier world.”

W.K. Kellogg

To Our Stockholders:

Kellogg Company achieved record results in 1988 as we invested substantially to strengthen the ready-to-eat cereal category and position the Company for continued growth. Strong volume gains were achieved during 1988 in almost all markets around the world.

Sales increased for the 44th consecutive year, earnings improved for the 37th consecutive year, and dividends were raised for the 32nd consecutive year, with a per-share increase from \$1.29 to \$1.52. A further increase in the quarterly dividend, from \$0.38 to \$0.43 per share, was announced in February 1989.

Capital spending exceeded \$530 million, more than six times that of a decade ago, as the Company accelerated the expansion and modernization of its ready-to-eat cereal production facilities. Expenditures for new-product development, advertising, and promotion also were at record levels.

Our current and future opportunities are enhanced by ever-growing consumer recognition of the role that nutritious, grain-based products can play in a healthy diet. This recognition has been consistently reinforced by the recommendations of government and science-based groups in many countries. In 1988, for example, the widely publicized U.S. Surgeon General's Report on Nutrition and Health urged less consumption of high-fat foods and more consumption of foods rich in complex carbohydrates and fiber.

The sale of our U.S. and Canadian tea operations during 1988 further intensified the Company's historic focus on grain-based foods.

Opposite page, from left: Horst W. Schroeder, William E. LaMothe, Robert L. Nichols.

Below: Arnold G. Langbo, executive vice president and president, Kellogg International; Gary E. Costley, executive vice president and president, U.S. Food Products Division; Charles W. Elliott, executive vice president-administration and chief financial officer.



Management changes

In November 1988, Horst W. Schroeder was named president and chief operating officer of Kellogg Company. Mr. Schroeder brings 18 years of international management experience with the Company to his new position. He served most recently as president of Kellogg North America and corporate group executive vice president.

Also in November, Dr. Gary E. Costley, corporate executive vice president, was named president of Kellogg Company's U.S. Food Products Division and Charles W. Elliott, executive vice president-administration, was named chief financial officer.

Other executive promotions announced during 1988 were John R. Hinton to senior vice president-finance; Joseph M. Stewart to senior vice president-corporate affairs; David H. Brenner to corporate vice president and president, U.S. Subsidiaries; George A. Franklin to vice president-public affairs; Dr. Victor L. Fulgoni to vice president-nutrition; David E. Kinnisten to vice president-financial planning and analysis; Thomas A. Knowlton to managing director, Kellogg Company of Great Britain, Ltd.; Gary A. Reimer to vice president-taxes; Jay W. Shreiner to vice president/treasurer; and William H. Weintraub to vice president-market and new product development. In January 1989, Michael D. Simpson and Donald W. Thomason were promoted to corporate vice president.

In March 1988, our entire Kellogg family was saddened by the unexpected death of Elliott M. Estes, a member of the Board of Directors (see tribute on inside back cover).

Our Company's greatest strength is the skill and commitment of Kellogg people. Their outstanding contributions continue to make Kellogg Company the international leader in the ready-to-eat cereal business.

As we look to the future, we are poised to cultivate new opportunities and take full advantage of existing opportunities. We believe we have the human, financial, and technological resources needed to continue our worldwide growth strategy.

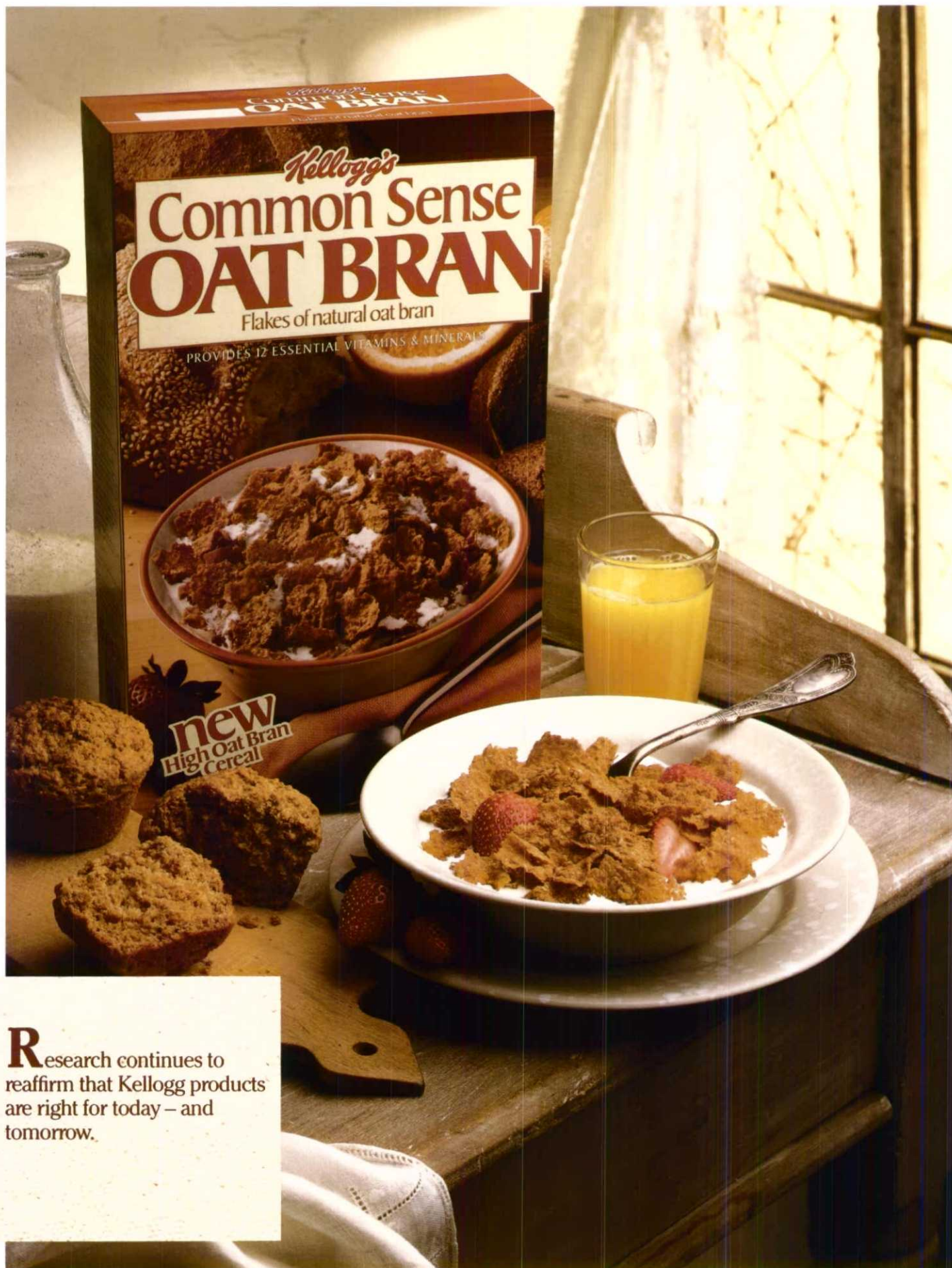
W. E. La Mothe *R. L. Nichols*

William E. LaMothe
Chairman of the Board
Chief Executive Officer

Robert L. Nichols
Vice Chairman

H. W. Schroeder

Horst W. Schroeder
President
Chief Operating Officer



Research continues to reaffirm that Kellogg products are right for today – and tomorrow.

A World of Opportunities

Kellogg Company's proud heritage remains a driving force for growth. The Company is well prepared to capitalize on the "world of opportunities" that exists in the grain-based food business and well positioned to cultivate new opportunities.

- We are the *global leader* in our business at a time when international strength and adaptability are increasingly important. Kellogg's historic commitment to business development has yielded an exceptionally strong international network of manufacturing and marketing systems. We also have developed strong managers in every country where we do business and blended them into a skilled, international team.
- We have *financial strength* that provides considerable flexibility in financing the growth of our business. The three major U.S. rating agencies all assign their most favorable debt rating to Kellogg Company.
- We have a priceless reputation for *quality leadership*. When surveyed, consumers consistently rank the name *Kellogg's* high in both recognition and esteem.
- We are *focused* on our core business: the development, manufacture, and marketing of nutritious, grain-based products. While we are open to new business opportunities, our first priority is the further development of the business we know best.
- Most importantly, *our products are right* for today – and tomorrow. Research continues to reaffirm the positive role that ready-to-eat cereal can play in a healthy diet.

Many of the leading causes of death in the United States, including heart disease, cancer, stroke, and diabetes, have been linked to diet. The good news is that simple dietary changes – particularly the consumption of less fat and cholesterol and increased consumption of foods rich in carbohydrates such as grains, fruits and vegetables – can positively influence health and fitness.

Increasingly, consumers are recognizing that a proper diet throughout the day, combined with regular exercise, promotes good health and fitness. A breakfast of ready-to-eat cereal and fruit is a perfect fit for such a diet. Compared to other breakfast choices, a cereal and fruit breakfast offers far less fat and cholesterol, a much higher carbohydrate content, and, in many cases, considerably more dietary fiber.

Information about how grain-based foods can contribute to a healthy diet is being widely disseminated to consumers by prominent organizations and authorities, including the U.S. Department of Health and Human Services, the U.S. Surgeon General, the U.S. Department of Agriculture, the American Cancer Society, the American Diabetes Association, the American Health Foundation, the American Heart Association, the American Institute of Cancer Research, the National Academy of Sciences, the National Cancer Institute, the National Heart, Lung, & Blood Institute, the Canadian Cancer Society, the European Atherosclerosis Society, the Imperial Cancer Research Fund (England), and the World Health Organization.

The public awareness created by this emphasis on nutrition and health is very favorable to companies such as Kellogg, whose products fit so well into a healthy diet. But, in addition to responding to the positive climate in the marketplace, Kellogg Company is working hard to cultivate new, even greater opportunities.

Investing in Growth

Increase in Expenditures 1988 vs. 1982





Around the world, consumers are increasingly choosing ready-to-eat cereal as part of a nutritious breakfast.

To reinforce to consumers the link between diet and health, Kellogg Company in 1988 launched "Project Nutrition." This broad new initiative has included:

- "The Kellogg Cholesterol Challenge," an exciting program conducted in cooperation with the American Health Foundation and local health agencies. Two major cities – Jackson, Mississippi and Lansing, Michigan – staged a friendly competition to determine which city's residents could achieve the greatest decrease in cholesterol levels after an initial screening. More than 20,000 people participated. Jackson won the challenge, but both cities achieved greater health awareness.
- A series of specialty magazine advertisements focusing on nutrition and health, with the theme "Get a Taste For the Healthy Life."
- Participation with the American Medical Association and noted physician Dr. Art Ulene in "Campaign Against Cholesterol," a program to encourage each person to know his or her cholesterol level. Kellogg involvement includes a health message from Dr. Ulene on the backs of packages of Kellogg's® *Common Sense*™ Oat Bran cereal

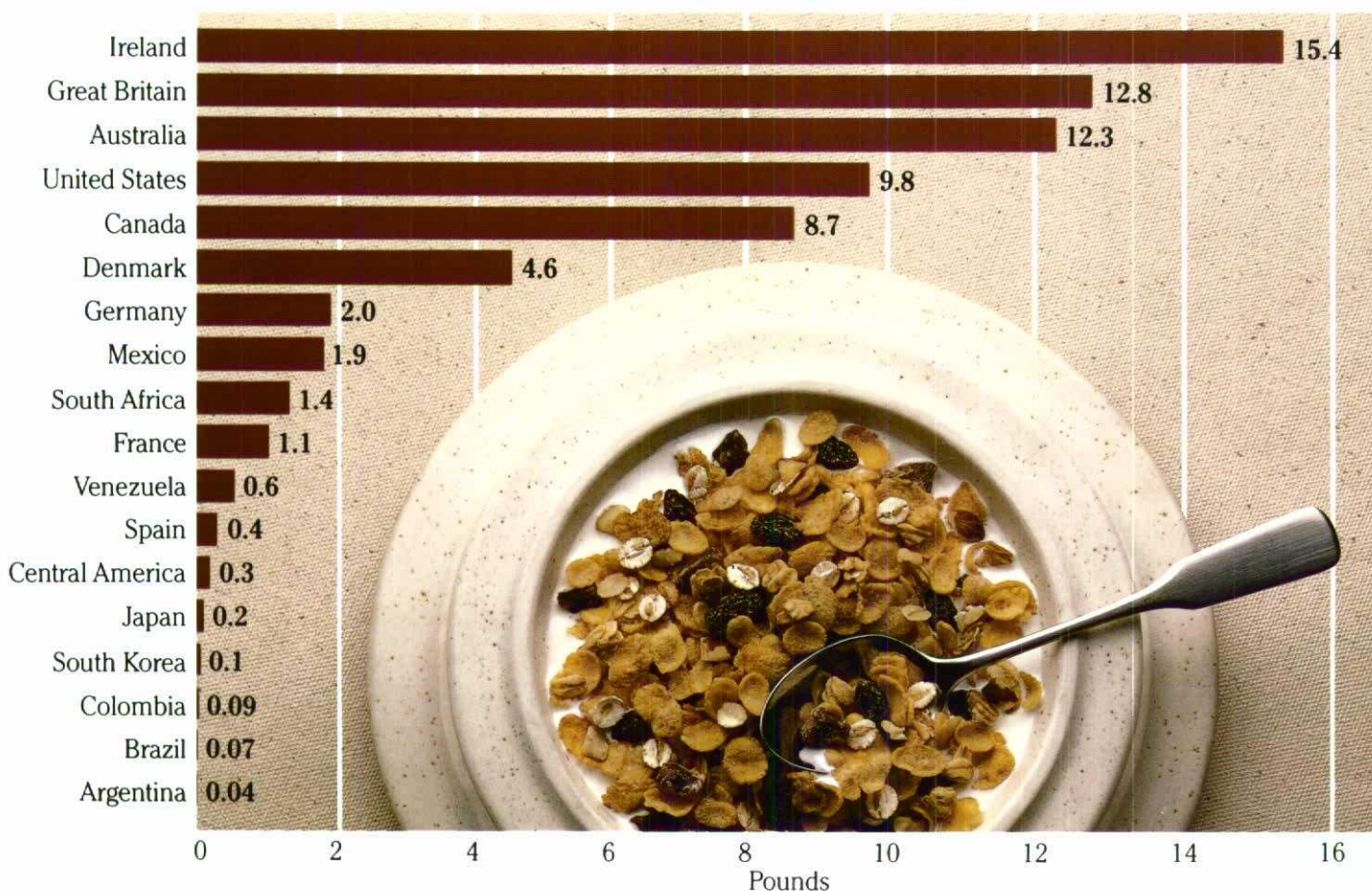
and waffles and a reduced price offer for Dr. Ulene's new book, "Count Out Cholesterol," on packages of Kellogg's® *Squares*™ products.

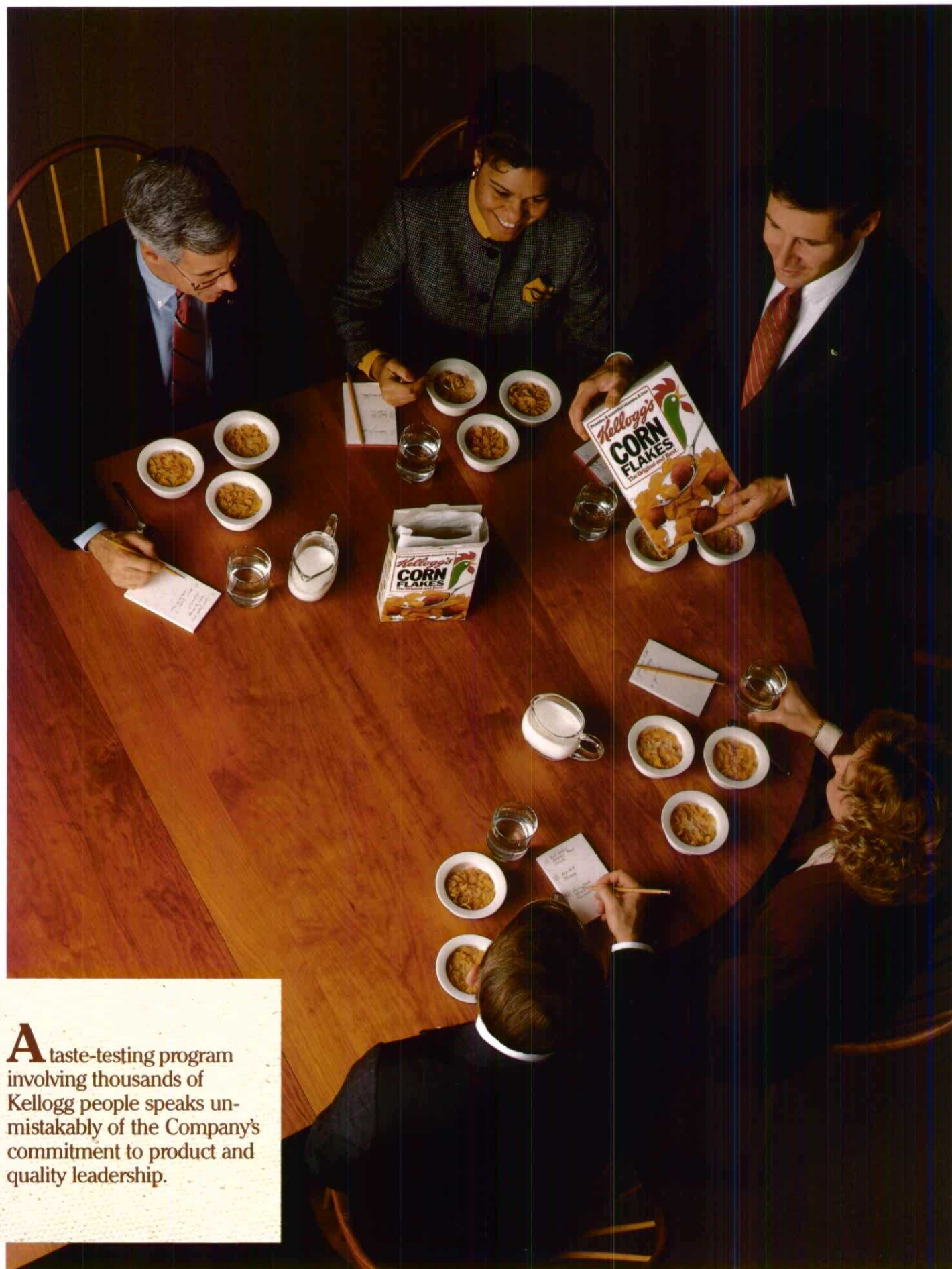
- Distribution to elementary schools of "Fit To Be,"™ an educational unit that teaches third and fourth graders about the importance of nutrition and fitness. Each "Fit To Be" kit includes a Kellogg-produced video tape, teacher's guide, and other classroom materials.

Also in 1988, the Company continued to use its *All-Bran*® packages and advertising to inform consumers of the National Cancer Institute's message that a high-fiber, low-fat diet may reduce the risk of some kinds of cancer. Based on the success of this campaign, Kellogg Company received the 1988 Corporate Award for Excellence from the Susan G. Komen Foundation.

This emphasis on providing information about nutrition and fitness remains a very high priority at Kellogg Company, as does our commitment to industry leadership in product development and quality, manufacturing technology, and advertising and promotion.

1988 Per Capita Cereal Consumption by Country





A taste-testing program involving thousands of Kellogg people speaks unmistakably of the Company's commitment to product and quality leadership.

Leadership in Product Development and Quality

Kellogg Company is committed to providing consumers with nutritious, value-added products that have long-term appeal. That requires constant efforts to develop unique new products and diligent monitoring of established products to assure continued quality leadership.

The U.S. introduction of two varieties of Kellogg's® *Common Sense*™ Oat Bran cereal in the fall of 1988 continued the Company's commitment to product leadership. Each serving of *Common Sense* Oat Bran contains 13 grams of oat bran, the most of any ready-to-eat cereal distributed nationally. Some studies suggest that a diet low in fat and high in soluble fiber, such as that in oat bran, may help lower elevated cholesterol to a healthier level.

Very favorable consumer response indicates that *Common Sense* Oat Bran has strong potential for long-term success in the marketplace.

Also offering significant potential are *Eggo*® *Common Sense*™ Oat Bran Waffles, introduced late in 1988 by Mrs. Smith's Frozen Foods Co., a Kellogg Company subsidiary.

In the U.S. cereal market, other Kellogg introductions in 1988 were Kellogg's® *Nutri-Grain*® Biscuits, the only whole grain, shredded wheat cereal without preservatives; a bite-size version of Kellogg's® *Frosted Mini-Wheats*®; Kellogg's® *Blueberry Squares*™, the fourth member of the popular *Squares* line; and Kellogg's® *Nut & Honey Crunch*® Biscuits.

New-product activity outside the U.S. also was considerable in 1988. Our Kellogg International Division introduced 34 new products, including:

- Kellogg's® *Raisin Splitz*™ in Great Britain, Ireland, Spain, France, and Finland, the first fruit-filled biscuit cereal manufactured in Europe.
- Kellogg's® *Crusli*®, a premium multi-grain cereal with fruit and honey, in Mexico.
- Kellogg's® *Toppas*™ biscuits topped with a light frosting of sugar, in Great Britain.

Fearn International Inc., Kellogg Company's foodservice subsidiary, introduced extensions to its premium-quality lines of soups, soup bases, and gravies. Early in 1989, Fearn introduced *LeGout/NOW*™ *Sausational*™ frozen sauces and *Gourmet Edge*™ food bases.

Unique Kellogg products of the 1980's, such as *Common Sense*™ Oat Bran, Kellogg's® *Mueslix*®, Kellogg's® *Crispix*®, and the *Nutri-Grain*® line, promise a long-term presence on the grocery shelf beside such traditional favorites as Kellogg's® *Corn Flakes*®, Kellogg's® *Frosted Flakes*®, Kellogg's® *Rice Krispies*®, and Kellogg's® *Raisin Bran*.

The remarkable staying power of Kellogg products results, in no small part, from our absolute commitment to quality leadership.

This leadership is aided by modern and sophisticated statistical and technical systems in our manufacturing facilities.

Equally important, however, is a continuous taste-testing and quality control program to assure that all Kellogg products – from Kellogg's® *Corn Flakes*® to *Common Sense*™ Oat Bran – consistently have the taste and quality that consumers desire. The personal involvement of thousands of Kellogg people in this program speaks unmistakably of the Kellogg commitment to product leadership – a strength that will continue to contribute to the Company's worldwide growth.

Opposite page, from upper left: David E. Kinnisten, vice president – financial planning and analysis; Josita T. Lundy, director – systems development; Francis J. Florido, senior marketing director, U.S. Food Products Division; Rebecca A. Storey, director of credit, U.S. Food Products Division; Timothy S. Knowlton, senior communications coordinator.





Developing and implementing new manufacturing technologies helps Kellogg people reduce costs and improve quality.

Leadership in Manufacturing Technology

Technological leadership in our business contributes importantly to Kellogg Company's consistent growth and to prospects for future worldwide growth. This leadership:

- Helps the Company maintain the highest standard of quality in the ready-to-eat cereal business.
- Plays a major role in controlling costs and increasing productivity.
- Enables Kellogg to produce a range of unique new products that contribute to long-term growth.
- Helps provide the added production capacity needed to satisfy increased consumer demand.

During 1988, Kellogg took major steps to implement new technologies and to set the stage for future technological developments.

In Battle Creek, Michigan, production began in February in Building 100, which includes state-of-the-art cereal processing and packaging lines as well as space for future expansion. Part of that space is being utilized for Phase II of the Building 100 project, which by late 1990 will add further processing and packaging facilities for our bran and rice products. In Memphis, Tennessee, site preparation has been completed for a major new cereal production facility that primarily will serve growing Southern markets. The new Memphis plant will be built in phases over a multi-year period. Construction on Phase I will begin in 1989.

Opposite page, from left: Donald W. Thomason, corporate vice president and executive vice president — operations, U.S. Food Products Division; Dr. Daryl R. Schaller, senior vice president — science and technology.

In Muncy, Pennsylvania, operation of Kellogg Company's newly acquired convenience foods research and production facility began in March. Excellent volume growth of our Kellogg's® Pop-Tarts® toaster pastries and new-product opportunities have led already to an expansion of the Muncy facility.

Mrs. Smith's Frozen Foods Co. opened a highly automated new production facility in Rossville, Tennessee and expanded its plants in Pottstown, Pennsylvania; Blue Anchor, New Jersey; and San Jose, California. Fearn International Inc. invested in new technologies at its Franklin Park, Illinois plant and planned for further investment in 1989.

The Company's International Division also invested heavily in expanding and modernizing manufacturing facilities during 1988.

In Great Britain, a major high-technology addition to our Manchester, England plant was completed. In Japan, an expansion of our Takasaki plant was completed and work began on a further addition. Major capital programs also took place at Kellogg plants in Bremen, Germany; Sydney, Australia; Svendborg, Denmark; Queretaro, Mexico; Valls, Spain; and Guatemala City, Guatemala.

In Europe, our long-term investment strategy is providing new capacities and logistical systems, equipping the Company to capitalize on the additional market opportunities that will result from the removal of trade barriers in 1992.

As part of a worldwide commitment to provide our employees with the best possible working environment, construction of amenities improvements took place at plants in Battle Creek, Michigan; Omaha, Nebraska; Memphis, Tennessee; Lancaster, Pennsylvania; Manchester, England; Queretaro, Mexico; and Buenos Aires, Argentina.





Innovative advertising and promotions strengthen the positive response of consumers to Kellogg's products.

Leadership in Advertising and Promotion

Kellogg Company's substantial investment in advertising and promoting its products is an important part of our heritage and continues to be a key element in our growth strategy.

In well-established markets such as the U.S., Canada, Great Britain, Ireland, and Australia, Kellogg advertising focuses on the unique qualities and appeal of each product. For example, highly successful U.S. television advertising for Kellogg's® *Special K*® has centered on the theme line, "Keep the muscle, lose the fat."™ Consumer acceptance of the *Nutri-Grain*® line, which has no preservatives and no added sugar, has been enhanced by advertising with the theme "Dedicated to the ones we love."

In less-developed markets, Kellogg advertising focuses more on the positive role ready-to-eat cereals can play in a nutritious breakfast. Advertising often shows a family at the breakfast table consuming Kellogg's® cereal, fruit, and other nutritious foods.

In addition to media advertising, Kellogg consistently uses its cereal cartons to increase the appeal of its products. Package fronts that are attractive, distinctive, and informative have strong appeal to grocery shoppers. Effective use of package back panels can deliver important lifestyle information – such as health tips from the National Cancer Institute or advice on lowering cholesterol from Dr. Art Ulene – and valuable offers such as movie ticket discounts,

coupons for free consumer products, and a discount on Kellogg's popular new cookbook, *"Fiber for a Healthy Life."*™ Also of interest to today's health-conscious consumers is the extensive product nutrition information provided on a side panel of every Kellogg cereal carton.

The placement of coupons on packages and in the printed media is a further incentive for consumers to choose Kellogg's® products. Effective couponing encourages both initial and repeat purchases.

The enduring consumer appeal of *Tony the Tiger*® and other Kellogg spokescharacters such as *Snap*, *Crackle*, and *Pop*®, *Toucan Sam*®, and *Dig 'Em*® the frog also helps Kellogg maintain market leadership. A highlight of 1988 was the very successful *"Tony on Tour"*™ promotion, in which *Tony the Tiger* made surprise visits to thousands of homes across the U.S. giving away a BMX bicycle to a youngster in each household with a package of his *Kellogg's Frosted Flakes*®. *Tony* also made hundreds of public appearances during the tour. *Tony* will again be "on tour" during 1989.

Our "So hot they're cool" campaign for Kellogg's® *Pop-Tarts*® has built a loyal franchise with teenage consumers.

Kellogg demonstrates its commitment to consumers by supporting programming that encourages education and healthy lifestyles. The Company recently announced a \$1.5 million gift to underwrite three years of new programs for "Reading Rainbow," a highly acclaimed children's series on public television.

Kellogg's U.S. subsidiaries also effectively marketed their products. A major and very successful campaign by Mrs. Smith's Frozen Foods Co. urged consumers to surprise their families with a *Mrs. Smith's*® pie during non-holiday periods. Fearn International Inc. grew its foodservice business through the effective combination marketing of its canned and frozen soup lines.

All of these marketing efforts are supported by the Company's longstanding partnership with our advertising agencies.

Also of critical importance is the continuing close partnership between the Company's advertising and promotion professionals and its outstanding sales teams. This affords us the opportunities of well-balanced consumer and trade promotion efforts around the world.





Kellogg Company is meeting increased consumer demand and creating new growth opportunities around the world with value-added ready-to-eat cereal products.





Eleven-Year Summary

(dollar amounts in millions, except share data)

Summary of Operations

	Net Sales	% Increase	Pretax Earnings	% Increase	Net Earnings	% Increase
10-year Compound Growth Rate	10%		11%		13%	
1988	\$4,348.8	15	\$774.7	16	\$480.4	21
1987	3,793.0	14	665.7	13	395.9	24
1986	3,340.7	14	586.6	11	318.9	13
1985	2,930.1	13	527.4	11	281.1	12
1984	2,602.4	9	476.1	7	250.5	3
1983	2,381.1	1	444.0	8	242.7	7
1982	2,367.1	2	410.9	9	227.8	11
1981	2,321.3	8	378.6	12	205.4	12
1980	2,150.9	16	338.3	20	184.0	14
1979	1,846.6	9	281.6	4	161.5	12
1978	1,690.6	10	271.7	4	144.4	5

Other Information and Financial Ratios

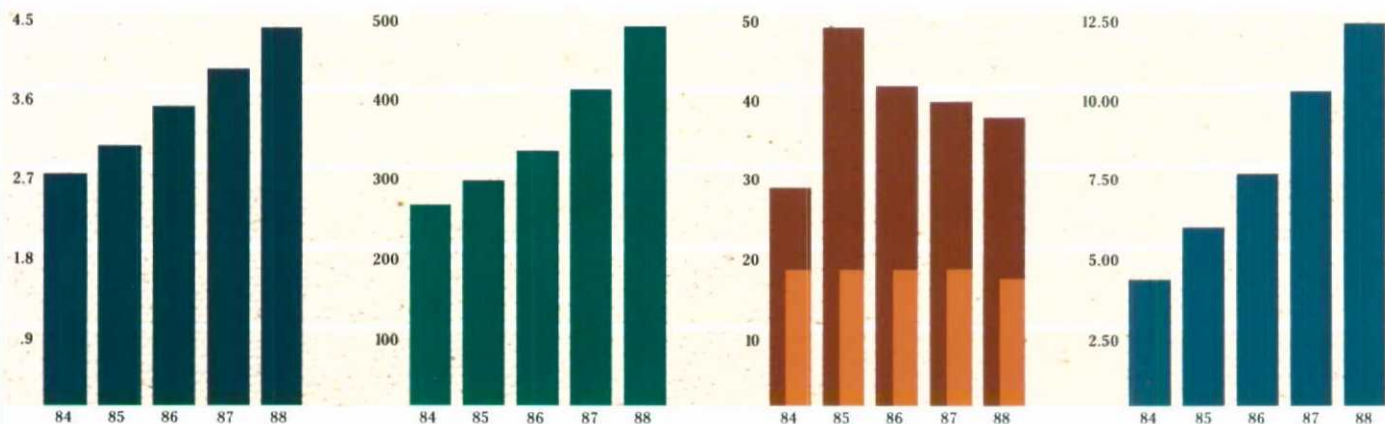
	Property, Net	Capital Expenditures	Depreciation	Total Assets	Number of Employees
1988	\$2,131.9	\$538.1	\$139.7	\$3,297.9	17,461
1987	1,738.8	478.4	113.1	2,680.9	17,762
1986	1,281.1	329.2	92.7	2,084.2	17,383
1985	1,035.9	245.6	75.4	1,726.1	17,082
1984	856.0	228.9	63.9	1,667.1	17,239
1983	743.2	156.7	62.8	1,467.2	18,293
1982	682.2	121.1	55.9	1,297.4	19,290
1981	658.4	146.4	49.1	1,279.1	20,260
1980	582.2	122.9	44.7	1,181.9	21,285
1979	509.0	80.9	40.5	1,049.8	20,818
1978	474.0	86.7	36.3	941.9	20,905

Net Sales
billions of dollars

Net Earnings
millions of dollars

Return on Equity and Assets
percent
■ Equity
■ Assets

Book Value Per Common Share
dollars



Per Common Share Data

Net Earnings	Cash Dividends	Book Value	Average Shares Outstanding (000's)	Shareholders' Equity
15%	10%			
\$3.90	\$1.52	\$12.07	123,188	\$1,483.2
3.20	1.29	9.82	123,668	1,211.4
2.58	1.02	7.27	123,481	898.4
2.28	.90	5.54	123,275	683.0
1.68	.85	3.96	149,380	487.2
1.59	.81	6.39	152,934	977.9
1.49	.76	5.79	152,878	884.7
1.34	.71	5.30	152,864	810.3
1.20	.67	4.81	152,860	735.8
1.06	.65	4.28	152,846	654.2
.94	.60	3.87	152,808	590.9

Financial Ratios

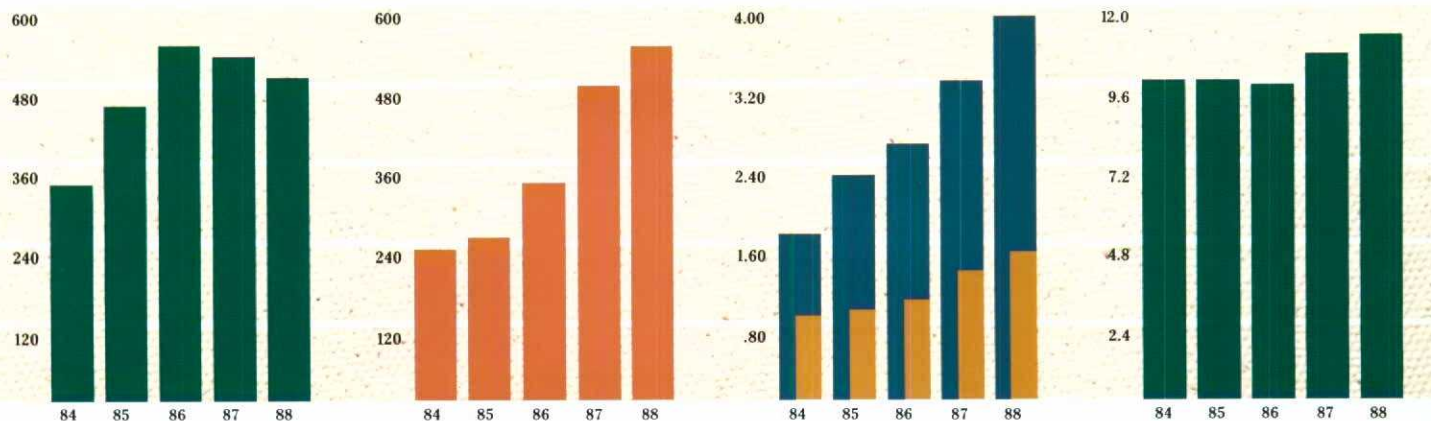
Current Ratio	Pretax Interest Coverage (times)	Return on Average Equity	Debt to Total Capital	Cash Provided By Operations	Long-term Debt
.9	13	36%	32%	\$492.3	\$272.1
.9	14	38%	27%	523.5	290.4
1.1	13	40%	31%	542.7	264.1
1.4	11	48%	38%	449.7	392.6
1.1	26	27%	59%	331.5	364.1
1.8	64	26%	4%	347.1	18.6
1.8	51	27%	2%	341.7	11.8
1.9	33	27%	11%	293.3	88.2
2.0	34	26%	12%	249.3	82.7
2.1	28	26%	15%	186.6	84.6
2.1	29	26%	16%	203.2	84.0

Cash Provided by Operations
millions of dollars

Capital Expenditures
millions of dollars

Common Share
dollars
■ Earnings
■ Dividends

Net Earnings to Net Sales
percent



Financial Review

Operations

Continuing a trend that now spans forty-four years for sales and thirty-seven years for net earnings, your Company achieved new highs in both categories during 1988. Consolidated sales of \$4.35 billion were up fifteen percent, following gains of fourteen percent in each of the years 1987 and 1986. Net earnings of \$480 million increased by twenty-one percent, after gains of twenty-four percent in 1987 and thirteen percent in 1986.

Sales increases resulted from a combination of factors. Domestic operations posted an eleven percent increase to \$2.77 billion as ready-to-eat cereal volume grew four percent and noncereal volume rose seven percent. The volume improvement was in addition to favorable pricing actions.

European operations achieved a strong twenty percent increase in sales dollars. The increase was the result of a nine percent rise in ready-to-eat cereal volume, as well as higher effective prices and the effect of translating results at favorable currency exchange rates. The sales increase in other geographic areas resulted from higher selling prices, a three percent ready-to-eat cereal volume increase, and generally favorable currency exchange rates.

Cost of goods sold as a percentage of sales was 51% in 1988. For the past three years this ratio has held very steady reflecting timely price increases offset by rising raw material and production costs.

Selling and administrative expense accounted for thirty percent of each sales dollar in 1988, compared to thirty-one percent in 1987 and twenty-eight percent in 1986. These costs reflect the Company's commitment to continued investment in creative marketing programs designed to maintain our market leadership around the world. Included in these marketing programs are the costs associated with the introduction of many new products designed to meet consumer demands.

Other income for 1988 increased due to a pretax gain on the sale of the Company's North American tea business. The effect of the sale on net earnings was immaterial.

Other deductions for 1986 included a \$21.3 million loss related to the purchase and redemption of the Company's \$150 million, 12¼ percent debentures due in 2015, and losses from nonrecurring events of \$10.4 million. The after-tax effect of these transactions was approximately \$19.5 million or 16 cents a share.

In the United States, net earnings increased fifteen percent as benefits from higher sales and a reduced statutory income tax rate were partially offset by slightly lower operating margins. Net earnings in Europe moved ahead twenty-four percent on strong sales gains combined with improved profit margins. Net earnings for operations in other areas increased primarily due to higher sales levels, improved profit margins, and benefits gained through favorable currency exchange rates.

Fourth quarter 1988 net earnings increased twenty-three percent primarily due to a thirteen percent rise in sales coupled with steady operating margins and a reduced effective income tax rate. Ready-to-eat cereal volume increased over six percent, with particular strength in our international markets.

Geographic operating segments — covered by Report of Independent Accountants

Net sales (millions)	1988	Change	1987	Change	1986	Change
United States	\$2,766.4	+ 11%	\$2,491.5	+ 10%	\$2,268.7	+ 9%
% of total	64%		66%		68%	
Europe	957.4	+ 20%	799.8	+ 25%	640.3	+ 35%
% of total	22%		21%		19%	
Other areas	625.0	+ 25%	501.7	+ 16%	431.7	+ 14%
% of total	14%		13%		13%	
Consolidated	\$4,348.8	+ 15%	\$3,793.0	+ 14%	\$3,340.7	+ 14%

Net earnings (millions)	1988	Change	1987	Change	1986	Change
United States	\$349.5	+ 15%	\$303.5	+ 23%	\$247.5	+ 11%
% of total	73%		77%		78%	
Europe	87.2	+ 24%	70.2	+ 32%	53.2	+ 37%
% of total	18%		18%		17%	
Other areas	43.7	+ 97%	22.2	+ 22%	18.2	- 7%
% of total	9%		5%		5%	
Consolidated	\$480.4	+ 21%	\$395.9	+ 24%	\$318.9	+ 13%

Identifiable assets (millions)	1988	Change	1987	Change	1986	Change
United States	\$1,641.4	+ 26%	\$1,302.0	+ 32%	\$ 984.4	+ 18%
% of total	50%		49%		47%	
Europe	840.9	+ 20%	698.0	+ 71%	409.3	+ 21%
% of total	25%		26%		20%	
Other areas	624.0	+ 13%	550.1	+ 13%	487.7	+ 16%
% of total	19%		20%		23%	
Corporate assets	191.6	+ 46%	130.8	- 36%	202.8	+ 52%
% of total	6%		5%		10%	
Consolidated	\$3,297.9	+ 23%	\$2,680.9	+ 29%	\$2,084.2	+ 21%

Liquidity and capital resources

The financial condition of the Company remained strong throughout 1988 as demonstrated by the December 31, 1988 Consolidated Balance Sheet.

Funds expended for capital improvements in 1988 totaled \$538 million compared with \$478 million in the prior year. In 1989, capital expenditures are again expected to exceed \$500 million as the Company continues to focus on the modernization and expansion of plant and machinery in order to produce the highest quality product at the lowest possible cost.

Total borrowings have increased \$271 million to \$712 million at year-end. Our total debt as a percentage of total capitalization remains strong at 32 percent. This compares to 27 percent last year. The Company continues to enjoy the highest debt ratings on both its commercial paper and its long-term debt.

In December, the Company gave notice that its \$100 million 10 $\frac{7}{8}$ percent Eurodollar notes due in 1990 would be redeemed at par on January 15, 1989. At year-end, this debt was recorded in current maturities of long-term debt. In anticipation of this redemption, the Company issued \$100 million 9 $\frac{7}{8}$ percent Eurodollar notes due in 1991. Additionally, in March 1989, the Company issued \$200 million 9 $\frac{1}{2}$ percent Eurodollar notes due in 1992 and reduced short-term debt.

Early in 1988 the Company filed a "shelf registration" of \$290 million of debt securities with the Securities and Exchange Commission. This allows the Company to react quickly to changing financial markets. The Company uses the U.S. commercial paper market to fund a portion of its seasonal working capital requirements. In addition, the Company maintains credit facilities with banking institutions in the United States and other countries where it conducts business. At year-end, the Company had \$489 million of short-term lines of credit of which \$416 million were available. Should suitable investment opportunities arise that would require additional financing, management believes the Company's strong balance sheet and history of growth in earnings provide a solid base for obtaining additional financial resources at competitive rates and terms.

Accounts receivable and notes payable increased at December 31, 1988 as a result of higher December sales and a program which offered promotional terms in the United States market. Accounts receivable declined during January 1989 as customers paid down their balances.

Dividends paid per share of common stock rose eighteen percent in 1988, bringing the total amount paid to \$187 million compared to \$160 million in 1987. This represents the thirty-second consecutive year in which shareholders have been rewarded with increased dividends.

During the year ended December 31, 1988, the Company purchased approximately 621,000 shares of its common stock at an average cost of \$54 per share. During 1987, approximately 425,000 shares were purchased at an average cost of \$53 per share. These treasury stock purchases were made under plans authorized by the Company's Board of Directors. Management may purchase up to an additional \$77 million worth of Kellogg Company common stock through April 1989 within the current Board authorization.

The deferred income tax liability is expected to be reduced by approximately \$45 million when the Company adopts the Financial Accounting Standards Board Statement No. 96, Accounting for Income Taxes. The cumulative effect of this new income tax accounting standard will be reported in net earnings in the first quarter of 1989.

Management is not aware of any adverse trends that would materially affect the Company's strong financial position or the ability to provide adequate financial resources to fund capital expenditures, dividends, and working capital requirements.

Quarterly operating results

	Net sales		Gross profit	
(millions)	1988	1987	1988	1987
First	\$1,029.8	\$ 896.0	\$ 502.1	\$ 445.5
Second	1,086.7	923.1	541.2	453.9
Third	1,140.3	1,008.9	576.8	511.9
Fourth	1,092.0	965.0	495.3	442.4
	\$4,348.8	\$3,793.0	\$2,115.4	\$1,853.7

	Net earnings		Earnings per share	
(millions, except share data)	1988	1987	1988	1987
First	\$121.1	\$104.5	\$.98	\$.85
Second	112.7	89.8	.92	.72
Third	145.7	119.3	1.18	.96
Fourth	100.9	82.3	.82	.67
	\$480.4	\$395.9	\$3.90	\$3.20

Dividends and common stock

The dividend payments for the year totaled \$1.52 a share up almost 18 percent from 1987. In February 1989, the dividend rate was boosted another 13 percent and is now at a stated annual rate of \$1.72.

The principal market for trading Kellogg shares is the New York Stock Exchange. The shares also are traded on the Boston, Cincinnati, Midwest, Pacific, and Philadelphia Stock Exchanges. The closing price (on the NYSE) on December 31, 1988, was \$64.25. Dividends paid and the quarterly price ranges on the New York Stock Exchange during the last two years are as follows.

1988	Dividend	High	Low
4th Quarter	\$.38	\$68.50	\$58.12
3rd Quarter	.38	63.00	52.25
2nd Quarter	.38	55.50	50.50
1st Quarter	.38	55.75	49.00
	\$1.52		

1987			
4th Quarter	\$.34	\$64.12	\$38.00
3rd Quarter	.34	67.75	60.00
2nd Quarter	.34	68.75	53.00
1st Quarter	.27	65.50	51.50
	\$1.29		

Consolidated Earnings and Retained Earnings

Year ended December 31,

(millions)	1988	1987	1986
Net sales	\$4,348.8	\$3,793.0	\$3,340.7
Interest revenue	13.8	14.1	11.7
Other revenue (deductions), net	5.6	(8.4)	(31.0)
	4,368.2	3,798.7	3,321.4
Cost of goods sold	2,233.4	1,939.3	1,744.6
Selling and administrative expense	1,321.3	1,162.5	948.7
Interest expense	38.8	31.2	41.5
	3,593.5	3,133.0	2,734.8
Earnings before income taxes	774.7	665.7	586.6
Income taxes	294.3	269.8	267.7
Net earnings —\$3.90, \$3.20, and \$2.58 a share	480.4	395.9	318.9
Retained earnings, beginning of year	1,717.9	1,481.5	1,288.5
Dividends paid—\$1.52, \$1.29, and \$1.02 a share	(187.2)	(159.5)	(125.9)
Retained earnings, end of year	\$2,011.1	\$1,717.9	\$1,481.5

See notes to financial statements.

Consolidated Balance Sheet

At December 31,

(millions)	1988	1987
Current assets		
Cash and temporary investments	\$ 185.0	\$ 126.2
Accounts receivable, less allowances of \$3.0 and \$2.6	404.6	275.1
Inventories:		
Raw materials and supplies	172.7	161.9
Finished goods and materials in process	189.5	149.0
Prepaid expenses	111.4	89.7
Total current assets	1,063.2	801.9
Property		
Land	42.8	34.7
Buildings	734.6	568.3
Machinery and equipment	1,711.1	1,427.2
Construction in progress	427.9	387.8
Accumulated depreciation	(784.5)	(679.2)
Property, net	2,131.9	1,738.8
Intangible assets	53.4	77.4
Other assets	49.4	62.8
Total assets	\$3,297.9	\$2,680.9
Current liabilities		
Current maturities of long-term debt	\$ 133.1	\$ 24.0
Notes payable	307.1	127.4
Accounts payable	365.3	311.9
Accrued liabilities:		
Income taxes	78.2	113.5
Salaries and wages	61.1	56.3
Promotion	131.7	151.9
Interest	38.2	30.0
Other	68.8	38.4
Total current liabilities	1,183.5	853.4
Long-term debt	272.1	290.4
Other liabilities	66.9	69.3
Deferred income taxes	292.2	256.4
Shareholders' equity		
Common stock, \$.25 par value—shares authorized 165,000,000; issued 154,157,146 and 154,015,283	38.5	38.5
Capital in excess of par value	63.3	58.1
Retained earnings	2,011.1	1,717.9
Treasury stock, at cost—31,229,083 and 30,607,683 shares	(631.8)	(598.2)
Currency translation adjustment	2.1	(4.9)
Total shareholders' equity	1,483.2	1,211.4
Total liabilities and shareholders' equity	\$3,297.9	\$2,680.9

See notes to financial statements.

Consolidated Statement of Cash Flow

Year ended December 31,

(millions)	1988	1987	1986
Operating activities			
Net earnings	\$ 480.4	\$ 395.9	\$ 318.9
Items in net earnings not requiring cash:			
Depreciation	139.7	113.1	92.7
Deferred income taxes	34.8	22.4	22.1
Other	(1.4)	(14.9)	8.9
Change in operating assets and liabilities:			
Accounts receivable	(129.5)	(57.6)	(13.6)
Inventories	(51.3)	(45.5)	(19.5)
Prepaid expenses	(21.7)	(41.1)	(8.1)
Accounts payable	53.4	49.1	73.1
Accrued liabilities	(12.1)	102.1	68.2
Cash provided by operations	492.3	523.5	542.7
Investing activities			
Additions to properties	(538.1)	(478.4)	(329.2)
Property disposals	45.6	10.2	4.1
Other	5.0	(6.4)	(4.6)
Cash used by investing activities	(487.5)	(474.6)	(329.7)
Financing activities			
Borrowings of notes payable	240.4	23.8	112.9
Reduction of notes payable	(60.7)	(29.8)	(12.3)
Issuance of long-term debt	111.1	52.4	22.6
Reduction in long-term debt	(23.5)	(7.3)	(151.1)
Issuance of common stock	5.2	8.8	4.8
Purchase of treasury stock	(33.6)	(22.6)	
Cash dividends	(187.2)	(159.5)	(125.9)
Other	.4	3.7	4.9
Cash provided (used) by financing activities	52.1	(130.5)	(144.1)
Effect of exchange rate changes on cash	1.9	9.7	1.4
Increase (decrease) in cash and temporary investments	58.8	(71.9)	70.3
Cash and temporary investments at beginning of year	126.2	198.1	127.8
Cash and temporary investments at end of year	\$ 185.0	\$ 126.2	\$ 198.1

See notes to financial statements.

Notes to Financial Statements

Note 1 Accounting policies

Consolidation

The consolidated financial statements include the accounts of Kellogg Company and its wholly-owned subsidiaries. Intercompany balances and transactions are eliminated.

Cash and temporary investments

Temporary investments that are highly liquid with original maturities of less than three months are considered to be cash equivalents. The Company adopted the provisions of the Financial Accounting Standards Board Statement No. 95, Statement of Cash Flows in 1988 and restated previously reported Statement of Changes in Financial Position for 1987 and 1986.

Inventories

Inventories include raw materials, labor, and manufacturing expenses and are valued at the lower of cost (principally average) or market.

Property

Fixed assets are recorded at cost and depreciated over estimated useful lives using straight-line methods for financial reporting and accelerated methods for tax reporting. Interest cost capitalized as part of the construction cost of capital assets amounted to \$21.6 million in 1988, \$17.6 million in 1987, and \$7.5 million in 1986.

Intangible assets

Intangible assets represent the unamortized excess of cost over fair market value of net assets of businesses acquired by purchase (goodwill), trademarks, and the underfunded amount of certain pension plans. Trademarks and goodwill are being amortized by the straight-line method, over periods up to 40 years.

Net earnings per share

Net earnings per share is determined by dividing net earnings by the weighted average number of common shares outstanding.

Note 2 Leases

Operating leases generally are for equipment and warehouse space. Rent expense on all operating leases, which generally are renewable at the Company's option, amounted to \$43.4 million in 1988, \$34.2 million in 1987, and \$31.7 million in 1986. Future minimum rental commitments under noncancelable leases are not material.

Note 3 Research and development

Research and development costs charged to earnings approximated \$42.0 million in 1988, \$40.0 million in 1987, and \$38.2 million in 1986.

Note 4 Foreign currency translations

Most effects of exchange rate changes are reflected as a currency translation adjustment in shareholders' equity.

Exchange adjustments attributable to operations in highly inflationary economies are reflected in earnings along with the exchange adjustments related to foreign currency transactions that affect cash flows.

The currency translation adjustment included in shareholders' equity consists of the following components.

(millions)	1988	1987
Balance, January 1,	\$(4.9)	\$(95.2)
Exchange adjustments	6.9	86.1
Income tax effect of the adjustments	.1	4.2
Balance, December 31,	\$ 2.1	\$ (4.9)

Note 5 Debt

Notes payable consists of domestic commercial paper amounting to \$197.1 million at 9.1% in 1988 and \$46.6 million at 7.6% in 1987, and bank loans of foreign subsidiaries at competitive market rates. In 1988, current maturities of long-term debt includes the \$100.0 million 10 $\frac{7}{8}$ % Eurodollar notes (originally due in 1990) that were redeemed in January 1989. In anticipation of this redemption, the Company issued the \$100.0 million 9 $\frac{1}{8}$ % Eurodollar notes.

Information on long-term debt follows.

(millions)	1988	1987
10 $\frac{7}{8}$ % Eurodollar Notes due 1990	\$100.0	\$100.0
9 $\frac{1}{8}$ % Eurodollar Notes due 1991	101.1	
11 $\frac{1}{4}$ % Eurodollar Notes due 1992	99.9	99.9
9% Canadian Dollar Notes due 1992	41.9	38.5
14 $\frac{1}{8}$ % Australian Dollar Notes due 1989	29.9	25.6
12 $\frac{3}{4}$ % Australian Dollar Notes due 1988		21.6
Other	32.4	28.8
	405.2	314.4
Less current maturities	133.1	24.0
	\$272.1	\$290.4

Principal payments are due as follows (in millions): 1990 – \$1; 1991 – \$101; 1992 – \$159; 1993 – \$0.

Interest paid, net of amounts capitalized, approximated interest expense in each of the three years ended December 31, 1988.

The Company has credit agreements providing for borrowing an aggregate of approximately \$489 million on an unsecured basis, \$416 million of which is unused at December 31, 1988.

Note 6 Common stock and other capital

In 1988, the Company purchased 621,400 of its common shares at an average cost of \$54 and, in 1987, purchased 424,900 shares at an average cost of \$53. All purchases are included in Treasury Stock. A summary of capital stock transactions follows.

(millions)	Common Stock	Capital in excess of par value	Treasury Stock
Balance, January 1, 1986	\$38.4	\$44.5	\$576.8
Stock options exercised		3.4	
Other changes		1.4	(1.2)
Balance, December 31, 1986	38.4	49.3	575.6
Stock options exercised	.1	8.8	
Treasury stock purchased			22.6
Balance, December 31, 1987	38.5	58.1	598.2
Stock options exercised		5.2	
Treasury stock purchased			33.6
Balance, December 31, 1988	\$38.5	\$63.3	\$631.8

Under the Company's stock option plan, options may be granted at not less than the fair market value of the Company's common stock at the time of grant. Such options are exercisable when granted and expire ten years from date of grant. Options for 792,050 and 1,141,475 shares were available for grant at December 31, 1988, and January 1, 1988, respectively. A summary of transactions under the plan follows.

	1988	Price range
Under option, January 1,	676,316	\$11.25-\$60.75
Granted	349,425	61.50
Exercised	143,066	11.25- 61.50
Under option, December 31,	882,675	\$11.25-\$61.50

Note 7 Retirement plans

The Company has several pension plans to provide retirement benefits for substantially all employees. Benefits for salaried employees are generally based on salary and years of service, while union employee benefits are generally a negotiated amount for each year of service. Plan funding strategies are influenced by tax regulations. Plan assets consist primarily of equity securities with smaller holdings of fixed income securities, real estate, and other investments.

The increase in pension expense in 1988 to \$21.7 million compared to \$14.1 million in 1987 occurred due to plan improvements covering most Great Britain and U.S. employees. Pension expense was \$20.4 million in 1986, computed using previous accounting standards. The decrease in 1987 pension expense from 1986 occurred principally due to the adoption of Statement of Financial Accounting Standard No. 87, Employers' Accounting for Pensions, effective January 1, 1987, offset somewhat by benefit improvements late in the year to certain plans covering most U.S. employees.

At December 31, 1988, Intangible Assets and Other Liabilities include \$40.9 million reflecting underfunded pension plans primarily in the United States compared to \$45.8 million at December 31, 1987.

Pension expense includes the following components.

(millions)	1988	1987
Service cost	\$ 17.8	\$ 13.6
Interest cost	38.2	31.5
Actual return on plan assets	(50.8)	(23.5)
Net amortization and deferral	14.9	(9.1)
Pension expense for Company plans	20.1	12.5
Pension expense for multiemployer plans	1.6	1.6
Total pension expense	\$ 21.7	\$ 14.1

The reconciliation of the funded status of the plans at year-end follows.

(millions)	Underfunded		Overfunded	
	1988	1987	1988	1987
Accumulated benefit obligation:				
Nonvested	\$ 6.7	\$ 5.8	\$ 4.4	\$ 4.2
Vested	172.9	158.7	199.6	180.7
Total	179.6	164.5	204.0	184.9
Projected salary increases	7.9	11.8	68.6	55.8
Projected benefit obligation	187.5	176.3	272.6	240.7
Plan assets at fair value	127.0	105.0	312.2	273.2
Assets greater (less) than projected benefit obligation	(60.5)	(71.3)	39.6	32.5
Unrecognized net loss	.7	7.6	6.6	16.3
Unrecognized transition amount	31.6	35.1	(36.4)	(39.7)
Unrecognized prior service cost	16.5	14.9	11.2	7.0
Prepaid (accrued) pension	\$(11.7)	\$(13.7)	\$ 21.0	\$ 16.1

All gains and losses are recognized over the average remaining service period of active employees.

The weighted averages for all plans of the actuarially assumed discount rate, long-term rate of compensation increase, and long-term rate of return on plan assets were 9.1%, 6.7%, and 9.7% for 1988 and 9.0%, 6.8%, and 9.4% for 1987, respectively.

The Company and certain of its subsidiaries provide health care and life insurance benefits for some retirees. The costs, expensed principally as incurred, are not material.

Note 8 Income taxes

Income taxes are provided on the basis of earnings reported in the financial statements. To the extent that certain transactions are reported in different periods for tax purposes, a portion of the provision for taxes is classified as deferred. The components of pretax earnings and of income tax expense follow.

(millions)	1988	1987	1986
Earnings before income taxes:			
United States	\$564.4	\$520.6	\$471.1
Foreign	210.3	145.1	115.5
	\$774.7	\$665.7	\$586.6
Income Taxes:			
Currently payable:			
Federal	\$181.6	\$189.5	\$178.7
State	20.4	15.9	17.1
Foreign	60.7	44.9	44.8
	262.7	250.3	240.6
Deferred:			
Federal	15.2	3.4	22.7
State	(.3)	1.6	1.7
Foreign	16.7	14.5	2.7
	31.6	19.5	27.1
Total income taxes	\$294.3	\$269.8	\$267.7

Following is a reconciliation of the U.S. statutory income tax rate to the Company's effective income tax rate and rate of income tax currently payable.

	1988	1987	1986
U.S. statutory rate	34.0%	40.0%	46.0%
State income taxes, net of federal credit	1.7	1.6	1.7
Investment credits			(1.2)
Research and development credits		(.3)	(.7)
Nondeductible goodwill	.8		
Other	1.5	(.8)	(.2)
Effective income tax rate	38.0%	40.5%	45.6%
Deferred tax effect of:			
Accelerated depreciation	(3.8)	(3.4)	(3.5)
Other tax timing differences	(.3)	.5	(1.1)
Rate of income tax currently payable	33.9%	37.6%	41.0%

Cash paid for income taxes was as follows (in millions): 1988 – \$287; 1987 – \$220; 1986 – \$195.

At December 31, 1988, \$630 million of foreign subsidiary earnings is considered permanently invested in those businesses. Accordingly, U.S. income taxes have not been provided for such earnings.

Financial Accounting Standards Board Statement No. 96, Accounting for Income Taxes, is expected to reduce the Company's deferred income tax liability. The statement will be adopted in the first quarter of 1989, and the cumulative effect will be reported in net earnings.

Note 9 Operating segments

The Company operates in a single industry – manufacturing and marketing convenience food products throughout the world.

Information presented on page 18 describes operations by geographic area. Included are schedules of net sales and net earnings for the years 1988, 1987, and 1986, and the related year-end identifiable assets, including corporate assets that are comprised principally of cash and temporary investments.

Report of Independent Accountants

Price Waterhouse

To the Shareholders and Board of Directors
of Kellogg Company

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of earnings and retained earnings and of cash flows present fairly, in all material respects, the financial position of Kellogg Company and its subsidiaries at December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

Battle Creek, Michigan
February 17, 1989

Kellogg Products and Operations

(by location of manufacture)

Argentina

*Kellogg's** cereals, snacks

Australia

*Kellogg's** cereals

Brazil

*Kellogg's** baby food cereals, cereals

Canada

*Kellogg's** cereals, toaster pastries

*Eggo** waffles

*Farm House** pies

*Shirriff** desserts, pie fillings, potatoes, puddings, snack dips

Colombia

*Kellogg's** cereals

Denmark

*Kellogg's** cereals

*Foska** peas

*Mollerens** macaroni, peas, spaghetti

Germany

*Kellogg's** cereals, granola-type bars

Great Britain

*Kellogg's** cereals

*Askeys** cones, syrups, wafers

Guatemala

*Kellogg's** cereals

Jamaica

*Foska** cereal

Japan

*Kellogg's** cereals

Mexico

*Kellogg's** cereals

South Africa

*Kellogg's** cereals, drink mixes

*Lushus** jelly

South Korea

*Kellogg's** cereals

Spain

*Kellogg's** cereals

United States

*Kellogg's** cereals, croutons, granola-type bars, non-dairy creamer, toaster pastries, breadings and stuffing products

*Eggo** dressings, mayonnaise, mixes, sauces, syrups, pancakes, waffles

*Dutch Maid** mixes, whipped topping

*LeGout** desserts, drink mixes, entrees, gravies, juice bases, pudding and pie fillings, sauces, soup bases, soups

*Mrs. Smith's** pies, non-dairy whipped toppings

*Whitney's** yogurt

Venezuela

*Kellogg's** cereals, custards, flans, puddings, gelatins

U.S. Food Products Division

Battle Creek, Michigan

San Leandro, California

Omaha, Nebraska

Lancaster, Pennsylvania

Muncy, Pennsylvania

Memphis, Tennessee

U.S. Subsidiaries

Fearn International Inc.

Franklin Park, Illinois

Los Angeles, California

Milpitas, California

Minneapolis, Minnesota

Mrs. Smith's Frozen Foods Co.

Pottstown, Pennsylvania

San Jose, California

Atlanta, Georgia

Blue Anchor, New Jersey

Morgantown, Pennsylvania

Arlington, Tennessee

Rossville, Tennessee

Kellogg Canada Inc.

London, Ontario

Rexdale, Ontario

Kellogg International

Buenos Aires, Argentina

Sydney, Australia

Sao Paulo, Brazil

Bogota, Colombia

Svendborg, Denmark

Bremen, Germany

Aylesbury, Great Britain

Manchester, Great Britain

Wrexham, Great Britain

Guatemala City, Guatemala

Kingston, Jamaica

Takasaki, Japan

Queretaro, Mexico

Springs, South Africa

Anseong, South Korea

Valls, Spain

Maracay, Venezuela

Corporate Directory

Directors

Charles M. Bliss
*Chairman of the Board and
Chief Executive Officer, Retired*
Harris Trust and Savings Bank
Chicago, Illinois

Brian P. Burns
*Chairman and
Chief Executive Officer*
BF Enterprises Inc.
San Francisco, California

Philip Caldwell
Senior Managing Director
Shearson Lehman Hutton, Inc.
*Chairman and
Chief Executive Officer, Retired*
Ford Motor Company
New York, New York

Theodore Cooper
Chairman of the Board
Chief Executive Officer
The Upjohn Company
Kalamazoo, Michigan

Gordon Gund
*President and
Chief Executive Officer*
Gund Investment Corporation
Princeton, New Jersey

William E. LaMothe
Chairman of the Board
Chief Executive Officer
Kellogg Company

Russell G. Mawby
*Chairman and
Chief Executive Officer*
W.K. Kellogg Foundation
Battle Creek, Michigan

Robert L. Nichols
Vice Chairman
Kellogg Company

Donald Rumsfeld
Senior Advisor
William Blair & Company
Chicago, Illinois

Harold T. Shapiro
President
Princeton University
Princeton, New Jersey

Paul H. Smucker
Chief Executive Officer
The J.M. Smucker Company
Orrville, Ohio

Dolores D. Wharton
President
The Fund for Corporate
Initiatives, Inc.
New York, New York

Committees

Executive Committee
William E. LaMothe (*Chairman*)
Charles M. Bliss
Russell G. Mawby
Paul H. Smucker

Audit Committee
Russell G. Mawby (*Chairman*)
Charles M. Bliss
Philip Caldwell
Gordon Gund
Harold T. Shapiro
Dolores D. Wharton

**Committee on
Social Responsibility**
Harold T. Shapiro (*Chairman*)
Charles M. Bliss
Gordon Gund
Russell G. Mawby
Robert L. Nichols

Compensation Committee
Paul H. Smucker (*Chairman*)
Brian P. Burns
Theodore Cooper
Donald Rumsfeld

**Employee Benefits
Advisory Committee**
Dolores D. Wharton (*Chairman*)
Charles M. Bliss
Brian P. Burns
Philip Caldwell
Donald Rumsfeld

Finance Committee
Brian P. Burns (*Chairman*)
Gordon Gund
Robert L. Nichols
Donald Rumsfeld
Harold T. Shapiro
Dolores D. Wharton

Nominating Committee
Philip Caldwell (*Chairman*)
Theodore Cooper
William E. LaMothe
Paul H. Smucker

Corporate Officers

William E. LaMothe
Chairman of the Board
Chief Executive Officer

Robert L. Nichols
Vice Chairman

Horst W. Schroeder
President
Chief Operating Officer

Gary E. Costley
Executive Vice President

Charles W. Elliott
Executive Vice President
Administration
Chief Financial Officer

Arnold G. Langbo
Executive Vice President

John R. Hinton
Senior Vice President – Finance

Daryl R. Schaller
Senior Vice President
Science and Technology

Joseph M. Stewart
Senior Vice President
Corporate Affairs

David H. Brenner
Vice President

Donald J. Brett
Vice President
Corporate Information Technology

Ross Buckland
Vice President

Fred C. Buhler
Vice President
Corporate Development

William A. Camstra
Vice President

Robert L. Creviston
Vice President – Employee Relations

George A. Franklin
Vice President – Public Affairs

Victor L. Fulgoni, III
Vice President – Nutrition

Paul A. Humiston, Jr.
Vice President
Corporate Technology

David E. Kinnisten
Vice President
Financial Planning and Analysis

Thomas A. Knowlton
Vice President

Richard J. Lilly
Vice President – Travel Services

Stephen D. McCurry
Vice President – Research

Gary A. Reimer
Vice President – Taxes

W. Lawrence Romans
Vice President – Internal Auditing

Stanley W. Ruis
Vice President/Corporate Controller

Jay W. Shreiner
Vice President/Treasurer

***Michael D. Simpson**
Vice President

***Donald W. Thomason**
Vice President

William H. Weintraub
*Vice President – Market and
New Product Development*

U.S. Food Products Division

Gary E. Costley
President

Michael D. Simpson
Executive Vice President
Sales and Marketing

Donald W. Thomason
Executive Vice President
Operations

U.S. Subsidiaries

David H. Brenner
Division President
and Chairman
Fearn International Inc.

John J. Feeney
Chairman
Mrs. Smith's Frozen Foods Co.

Kellogg Canada Inc.

Carlos M. Gutierrez
President

Kellogg International

Arnold G. Langbo
President

Ross Buckland
Director of
European Operations

Holger U. Birkigt
Managing Director
Kellogg (Deutschland) GmbH

William A. Camstra
Director of
Latin American Operations

Donald G. Fritz
Managing Director
Australia

Thomas A. Knowlton
Managing Director
Kellogg Company of
Great Britain, Ltd.

M. John Cook
Manager
Asian Operations

*Effective January 27, 1989.

Kellogg Company

One Kellogg Square
P.O. Box 3599
Battle Creek, MI 49016-3599
(616) 961-2000

Independent Accountants:

Price Waterhouse

Transfer Agents and Registrars:

Common Stock:
Harris Trust and Savings Bank
Corporate Trust Operations
P.O. Box 755
311 West Monroe Street
Chicago, IL 60690

Fiscal Agent:

14½% Australian Dollar Notes due 10/23/89
9½% Eurodollar Notes due 9/20/91
11¼% Eurodollar Notes due 1/15/92 and
9% Canadian Dollar Guaranteed Notes
due 1/16/92

Citibank, N.A.
111 Wall Street
New York, NY 10043

Dividend Disbursing Agent:

Harris Trust and Savings Bank
Corporate Trust Operations
P.O. Box 755
311 West Monroe Street
Chicago, IL 60690

**Dividend Reinvestment and
Stock Purchase Plan:**

This plan, available to shareholders, provides a means of regular dividend reinvestment including a voluntary cash payment option for the purchase of additional stock. For details, contact:

Dividend Reinvestment
Harris Trust and Savings Bank
P.O. Box A3309
Chicago, IL 60690

Kellogg Better Government Committee:

This committee is organized to permit Company shareholders, executives, administrative personnel, and their families to combine their contributions in support of candidates for elected offices at the federal level who believe in sound economic policy and real growth, and who will fight inflation and unemployment, try to decrease taxes, and reduce the growth of government. Interested shareholders are invited to write for further information:

Kellogg Better Government Committee
ATTN: Molly Amodeo
One Kellogg Square
P.O. Box 3599
Battle Creek, MI 49016-3599

Company Information:

The 10-K report, cassette tape recordings of this report for visually impaired shareholders, and other corporate information are available upon request from:

Connie Katz
Finance Department
Kellogg Company
One Kellogg Square
P.O. Box 3599
Battle Creek, MI 49016-3599

Product information is available upon request from:

Consumer Affairs Department
Kellogg Company
One Kellogg Square
P.O. Box 3599
Battle Creek, MI 49016-3599

Common stock listed on the New York Stock Exchange Ticker Symbol-K

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Elliott M. "Pete" Estes
1916-1988

Elliott M. "Pete" Estes, a worldwide leader and pioneer in the automobile industry, made invaluable contributions to Kellogg Company as a member of the Board of Directors from 1980 until his death in 1988.

Pete's energy, experience, and resourcefulness impacted greatly on the Company's worldwide growth and upon all who worked with him. He leaves a legacy of innovation, commitment to quality, and a belief in the human spirit that continues to inspire and challenge us all.

Kellogg's

Kellogg Company

Battle Creek, Michigan 49016-3599

Telephone (616) 961-2000